

Embassy, January 17th, 2007
FEATURE
By Lee Berthiaume

Luring Investors to Africa Difficult, But Worthwhile

Dozens of new business opportunities open weekly, but fears of instability on the continent keep many investors at bay.

In the early morning hours of Sept. 19, 2002, gunfire woke the residents of Abidjan as civil war broke out in Côte d'Ivoire once again.

Caught in the middle of the fighting were two Canadian businessmen from Toronto-based telecommunications company Iristel Inc.

The company had set up operations in the West African country in 1999, the same year another civil war broke out. The company had recovered from the previous conflict and was turning a profit by channeling phone calls between the two countries over the Internet.

Rather than pull out and abandon its investment following the latest outbreak, the company decided to stay put and hope for a return to calm. For the next five months, Iristel continued operating at a bare minimum.

"We took a loss, there's no doubt about it," says Maged Bishara, the company's director of operations, one of the two men caught in the country when the fighting broke out. "But even if we had to stop 80 per cent of the operations for the time being, we had to keep 20 per cent going so we would have an opportunity to restart it, basically. You walk away, that's it."

According to the Department of International Trade, there are about 500 Canadian firms active in sub-Saharan Africa. While overall investment numbers were not available, Natural Resources Canada says Canadian companies have invested almost \$10 billion in mining and energy projects alone.

But while mining and energy companies operating in Africa continue to attract large numbers of investors and turn profits, the continent's numerous problems—both real and perceived—make luring investors in other industries extremely difficult.

"Africa tends to be thought of as one entity," says Shirley-Ann George, vice-president international at the Canadian Chamber of Commerce. "There is a strong perception that Africa is very unstable. Companies aren't willing to invest in countries that aren't stable for the long-term."

The ongoing genocide in Sudan's Darfur region; fighting in war-wrecked Somalia; economic collapse and authoritarian rule in Zimbabwe; and HIV/AIDS are just some of the well-known problems plaguing Africa.

If the conflicts and problems could be confined to individual nations, perhaps they could be dismissed as isolated problems, but more often than not the negative impacts spill over into neighbouring countries, further contributing to regional instability and strife.

"There is a serious image that all Africans who are trying to turn things around know and are frustrated by," Ms. George says. "I am told that there are some countries that don't fit that profile, but nobody knows who they are."

Ms. George, who is the first to admit she is not an expert on Africa as her organization does not have a lot of dealings with the continent, believes: "Until you get some critical mass, it's very difficult to change the image. And how do you get critical mass without changing the image? So they're in a chicken-and-egg problem."

Last year, Uganda's economy grew by about 5.4 per cent, according to the Ugandan government's website. While agricultural production slowed, other areas such as services, communications and hotels and restaurants saw good growth.

"The government has steered the country towards development," says Joseph Kahiigwa, Uganda's deputy high commissioner to Ottawa. "Uganda has a lot of potential."

But getting the word out has been a challenge for the country.

"There is that perception that Africa is one [nation]," Mr. Kahiigwa says. "We are trying to find a way to establish a name for Uganda here. That can only be changed when we have trade missions. They are not as regular and as such, there is no mutual understanding."

In 1997, Canada ranked as the fourth largest source of foreign direct investment to Uganda, according to Mr. Kahiigwa. However, aside from natural resources, the majority of investors came from Ugandans living in Canada who returned to the African country to set up businesses. It didn't help that the country was racked by 20 years of civil war that only now looks like it could end.

Mr. Kahiigwa says there are numerous advantages available to Canadian companies operating in Uganda. The government has invested heavily in infrastructure, labour is cheap, and tax holidays and other financial incentives are available.

In addition, the country provides easy access to numerous neighbours. However, investors are still reluctant to put money into a part of world that has a history of corruption and instability.

African Nations Making the 'Right Moves'

In April 2005, the Canadian International Development Agency launched a new initiative entitled the Canada Investment Fund for Africa. The government put up \$100 million with the aim of encouraging other investors to contribute money to projects on the continent.

So far, the fund has raised about \$250 million and invested more than \$40 million in eight projects throughout the continent, including a bank in Rwanda, a paper company in South Africa and a food production and warehousing company in Nigeria.

David Creighton, president and CEO of Cordiant Capital, the Montreal-based company that manages the fund in co-operation with London-based Actis as well as other private sector investments in Africa, says there are a number of sectors outside of natural resources that are emerging on the continent that are ripe for investment.

Real estate development, banking and financial services, infrastructure projects and telecommunications are all emerging as potential destinations for foreign investment.

"In a place like Lagos in Nigeria, all the shopping has been done on the street and stalls," he says. "We have been trying to get involved in the development of this new shopping centre. It's something we take for granted, but there are no shopping centres in Lagos."

In addition, Mr. Creighton says, there are countries—Angola, Mozambique, Ghana and Senegal, to name a few—that are taking the necessary steps towards economic and governance reform that make them good candidates for foreign investment.

"They are making all the right moves," he says. "There are lots of good opportunities."

The challenges, however, are numerous. Even in a country that enjoys a reputation for stability, things can move very slowly, especially where governments are involved.

"Lots of people say Africa is the last place they want to go to, it's never going to

emerge," he says. "In many cases you have governments that are a little bit difficult to work with.

"But I can say categorically that in all countries you have a class of entrepreneurs and business people that want to be able to do business. If you can hook in with them and back them and insulate yourself, to a degree, from the government...then you've got a real second chance to do something with it."

And one way to ensure officials and locals at all levels are onboard with the project is to allow them to buy in to it. By giving them a personal stake, they are more likely to want to see the project succeed.

As an example, Mr. Creighton points to a project in Nigeria where investors are trying to set up a petrochemical processing plant that will produce nylon fibres.

While the area is "lawless," the investors have provided local officials, employees and land owners a stake in the plant that will provide them an incentive not to threaten its existence or operations.

"It's very basic," Mr. Creighton says. "But it's something that so many multinationals and investors say they won't pay attention to."

He describes Africa as "the land of a very small number of enlightened investors."

"There are two different sides, and this is typical of Canada," he says. "You've got a small group in the mining and oil and gas area who are total risk-takers. These guys go into any place in Africa where they can go.

"And then you have the rest of the country and they only want to put their money in Bell Canada and these sorts of things. There's a very clear line and there's no in-between."

Weekly Business Opportunities

Lucien Bradet, president of the Canadian Council on Africa, says with 23 countries reporting at least five per cent growth last year, the opportunities are there.

"Not enough Canadian companies know about Africa and know about the potential of Africa," he says. "The issues that have plagued Africa for many years are being improved. Many companies, like Canadians in general, think there is not good news in Africa."

In an effort to raise that awareness, Mr. Bradet founded Business Development

Services last July, which publishes a list of business opportunities available in Africa.

So far, he says, he has found 750 unique opportunities touching 54 countries.

"Weekly we publish between 30 and 35 new initiatives," Mr. Bradet says. "And I'm talking here about real business, business that can be done. So the reality is that there is business over there.

"It's 54 countries that are growing very fast and I say why not us now? By 2010 we will invest in aid something like \$2.3 billion per year. I think we should increase our other relations with Africa."

Five years after the 2002 coup, Iristel is still operating in Côte d'Ivoire, a country that has remained free from war for the past four years but is still considered very unstable.

Despite losing money during the violence five years ago, Iristel has continued to operate in the country and expanded operations to several other West African nations.

Mr. Bishara says corruption and cultural differences make up the bulk of the challenges his company continues to face operating in Africa.

"The corruption is one of the main issues," he says. "It's very harmful because you're looking over both shoulders as you're investing. On the flip of a dime, a North American corporation could just lose its project for various reasons."

To counter this, Iristel carefully selects local partners that will get the job done without damaging the company's reputation or operations.

While the company's Eastern European operations are more profitable because the infrastructure needed to channel the long-distance calls over the Internet already exists, Mr. Bishara says Africa has been a boon for Iristel.

"There's a great market there," he said. "Canadian operations just have to be careful there. It's virgin and untapped."

lee@embassymag.ca